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ABSTRACT

A study examined whether the suburban press is better off if competing metropolitan daily newspapers are allowed to merge operations in a joint operating agreement (JOA) as provided by the Newspaper Preservation Act of 1970, or if the weaker of the two dailies is allowed to close down, throwing the suburban paper into competition with a monopoly metropolitan daily. Five metropolitan newspaper failures during 1976-1981 were analyzed. Suburbs in each of five metropolitan areas were identified, and data (number of suburban papers and circulation statistics) were analyzed for the period of a pseudo decade (six years before the failure, the year of the failure, and the three years following the failure). In addition, data on circulation of major dailies and total number of households in the city zone and retail trade zone were collected for each of the metropolitan areas. Findings suggest that the suburban press was better off in an area of joined dailies, but that the entire newspaper industry appeared to suffer in an area with a monopoly daily, since the data showed an overall market decline in penetration and circulation. The surviving daily benefited from the change, although three years after the competitor's demise the survivor retained less than half of the orphaned penetration and circulation. Results suggest that perhaps the suburban press should reevaluate its opposition to JOAs. (NKA)

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**Trends of Circulation and Penetration
Following Failure of Metropolitan Daily Newspapers**

by

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Congress passed the Newspaper Preservation Act in 1970, with the stated purpose of saving major daily newspaper "voices" from financial failure. The provisions of the Act allow two competing dailies an antitrust exemption to merge all but their editorial departments if one of the newspapers can convince the U.S. Department of Justice that without such a joint operating agreement the newspaper will fail. The cost savings and other financial benefits gained by the JOA serve to shore up the weaker of the two papers and enable it to survive.¹

Ever since the Act's passage, periodic challenges to existing joint operating agreements have erupted. And recently, the battle over the NPA has reached fever pitch with the request by the Detroit News to join with the Detroit Free Press in what would be, with combined daily circulation of 1.3 million, the largest joint operating agreement in the country. In requesting the agreement, both papers pointed to huge financial losses incurred in their fight to gain control of the Michigan newspaper market.² Arguments opposing the agreement echo those heard in virtually every confrontation over the Act: the joined dailies will use their collective muscle to damage other existing newspapers and prevent still other newspapers from entering the area controlled by the joined dailies.³

While the Detroit situation has drawn considerable interest, not only because of the sheer magnitude of the potential joined operation but because it involves two giants among media groups, Knight-Ridder and Gannett, it is not the only arena where the NPA battle is being fought. A

major challenge also has been mounted against the joint operating agreement in San Francisco, in force since 1964 and, with total daily circulation of about 700,000, the largest JOA in existence. Additional challenges are likely to occur as a number of the agreements now in effect expire and come due for renewal in the next few years.

There seems to be little question that the NPA has been successful in preserving daily newspaper voices, since no paper that has entered into a JOA has ever failed. But, what is questioned by JOA opponents is whether the price of saving the failing dailies is too high for the suburban press.

Generally not questioned, however, is the cost to the suburban press if the dailies are not allowed to join and, presuming the failing daily does indeed fail, the suburban papers are faced with competing against a monopoly daily. In essence, the issue boils down to a single, critical question:

Is the suburban press better off in a market with joined daily newspapers or a monopoly daily newspaper?

Economic theory suggests that it should be preferable for the suburban press to compete against joined dailies rather than against monopoly dailies. In economic terms, when competing dailies enter into joint operating agreements the market structure changes from an oligopoly to one more nearly characterizing a monopoly. The market retains some of the characteristics of an oligopoly since there are few firms in the market, at least at the level of the large metropolitan daily newspaper, and the joined dailies obviously recognize their interdependence. However, in a perfect oligopoly the firms involved set prices and

production at a level that will produce maximum profits, the same situation that occurs in a perfect monopoly.⁴ This is what usually occurs in a JOA since the NPA allows joined dailies to set subscription and advertising prices at levels that presumably maximize profits in what might be termed legalized collusion. Perhaps more importantly, joined dailies can set joint advertising rates at levels so attractive to advertisers that the dailies can siphon the majority of advertising revenues from the community, leaving little for the suburban press.⁵ This action also approximates the behavior of a monopoly.

Joined dailies have the additional advantage, over competing oligopoly dailies, of economies of scale that result from combining their business and production functions. With the economic power derived from economies of scale and the ability to manipulate advertising and subscription prices, joined dailies have the potential to engage in predatory practices that can eliminate competition from suburban papers. In other words, from all appearances the joined dailies seem to be structurally indistinguishable from a monopoly, with one major exception. Because the JOA exists at the consent of the U.S. Department of Justice, the joined dailies participate in predatory practices at their peril, since the agreement can be revoked if it is abused. Consequently, joined dailies are constrained by law to perform as an oligopoly. Monopoly dailies operate under no such constraints.

Therefore, if traditional economic theory is consistent with reality in the newspaper industry, the suburban press should be better off in metropolitan areas with joined rather than monopoly dailies.

Literature Review

Although there have been few investigations into the effects of JOAs on the suburban press, the studies have been consistent in finding little evidence of detrimental results.

In a case study of the Seattle area, Henderson found that four suburban dailies actually increased circulation and profits after the metropolitan dailies were joined. The editors of the suburban dailies attributed the gains to improvements made in their operations spurred by the JOA. The study did show that the suburban dailies lost some advertising lineage, especially local display advertising, but the losses were not significantly different from those at similar papers in the Pacific Northwest.⁶

Another study compared the effects of joined and competing dailies on the circulation and number of suburban newspapers in 12 matched metropolitan markets. Results showed that the two different market structures had no significant effect on the number of suburban newspapers per suburb. Contrary to expectations, the study also found that circulation of the suburban newspapers in JOA communities was more than twice that of suburban papers in the communities with competing dailies.⁷

In the most comprehensive study in this area, Lacy, et al, compared the effects of joined, competing and monopoly dailies on the suburban press in 900 suburban communities. They found little evidence that the central city daily newspaper market structure had any effect on the existence or circulation of suburban weekly, bi-weekly and daily newspapers.⁸

Aside from the Henderson case study, unfortunately absent from the

literature are studies on the effects of JOAs on suburban newspaper advertising lineage and revenues, although researchers argue that there is such a high correlation between circulation and advertising that results from studying one can be applied to the other.

The absence of direct studies on advertising notwithstanding, the available evidence indicates that JOAs have not had a detrimental effect on the suburban press.

While the picture of the effects on the suburban press in JOA communities appears relatively clear, not nearly so clear are the effects that result when a failing newspaper is allowed to die and the suburban press then has to compete with the surviving monopoly daily. The literature however does yield some information on the behavior of monopoly dailies in general.

For example, Bagdikian pointed out that, as of 1980, 75 percent of the revenues of daily newspapers came from advertising sales. He said that since the dailies are more advertising driven than circulation driven, the premium is on quality rather than quantity of circulation. Therefore, in the case of monopoly situations, where dailies are free to control circulation without fear of reprisal from competitors, one would expect daily circulation to decrease as the monopoly daily seeks to select the most economically desirable subscribers and abandons the remainder.⁹

Blankenburg found some evidence of this in his study comparing circulation and penetration of Gannett dailies with other dailies over time. An assumption in the study was that Gannett had the economic strength to manipulate circulation to a certain extent. Results showed that although circulation of the Gannett papers over time did not decrease

significantly, compared with the other dailies, penetration did. Comments from Gannett indicated that there was a conscious effort to select the more desirable readers.¹⁰

While Bagdikian's comments and Blankenburg's findings seem to indicate that there should be more potential subscribers available to suburban papers in a metropolitan area with a monopoly daily than where there is a JOA, Lacy, et al, found that whether the large metropolitan dailies were JOAs, monopoly or competing had no significant effect on suburban newspaper numbers or circulation.¹¹

The contradictory evidence indicates that considerably more research needs to be done in this area before a clear picture of the effects of JOA versus monopoly dailies on the suburban press and newspaper markets in general will emerge. This study is designed as a step in that direction. More specifically, given the scarcity of information on the effects on the suburban press when a metropolitan area goes from competing dailies to a monopoly rather than to a JOA, this study will trace, over time, the trends in suburban newspaper penetration, circulation and numbers, and metropolitan daily penetration and circulation, starting before the demise of the failed daily and ending after the community becomes a monopoly market.

For the purposes of this study the hypotheses to be tested were drawn from the economic theory discussed earlier, and the comments by Bagdikian and Blankenburg. Based on that information, when the market structure changes from competing to monopoly dailies it is expected that:

H₁: Suburban newspaper penetration will decrease.

H₂: Suburban newspaper circulation will decrease.

H₃: Suburban numbers will decrease.

H₄: Penetration of the surviving metropolitan daily will decrease.

H₅: Circulation of the surviving metropolitan daily will decrease.

Since penetration and circulation both of metropolitan dailies and suburban newspapers are expected to decrease, it is further hypothesized that:

H₆: Total market penetration will decrease.

H₇: Total market circulation will decrease.

Method

Since the primary purpose of this study was to determine trends in numbers, circulation and penetration of suburban newspapers, it was considered important as a control for time to include as many metropolitan areas as possible in which the newspaper market changed from competing to monopoly daily newspapers or newspaper companies during approximately comparable time periods. An examination of daily newspaper failures indicated five failures in a six-year span, 1976-1981, that appeared appropriate for the study.¹²

In order to determine the general effects of the change from competing to monopoly metropolitan dailies, it was necessary to devise a method to combine the data for all five areas during comparable time periods. Since the five dailies did not all fail in the same year, and therefore the data could not be combined using calendar years, it was decided to combine data on the basis of "comparable" times during the cycle of change from competing to monopoly dailies. The method involved a time shift procedure that treated all five failures as if they occurred in the same year. From that anchor point, the trends before failure were

determined from data for the six years prior to failure. The number of years examined prior to failure was limited by the beginning point of the study, arbitrarily set at 1970, and the first newspaper to fail between 1970 and 1985, the Hartford Times in 1976. The end point of 1985 was the most recent year for which adequate data were available. The trends following failure were determined from data for the three years after failure. The number of years examined following failure was limited by the end point of the study, 1985, and the year of the last failures in the period covered by the study, the Buffalo Courier Express and the Cleveland Press in 1982. In other words, the design resulted in a pseudo decade that included years one through six (before failure), year seven (failure), and years eight through ten (after failure).

The next step was to identify the suburbs in each of the five metropolitan areas. For the purposes of this study, a suburb was defined as an area, primarily of residences, having its own government, name identity and defineable political boundaries, located outside but contiguous to the political boundaries of the central city. The stipulation that the suburb must be contiguous to the central city was imposed to eliminate those outlying communities in the Standard Metropolitan Statistical Area that are not greatly influenced by the central city because of their geographic detachment from it.¹³ The procedure resulted in a total of 286 suburbs in the five metropolitan areas.

Data collected over the ten-year period for each suburb included:

- number of suburban newspapers
- circulation of suburban newspapers

In addition to newspapers published and circulated in the suburbs, data also were collected for newspapers circulated in the suburbs but published in the central city.

Data collected for the metropolitan area included:

- circulation of major metropolitan daily newspapers
- total number of households in the metropolitan area city zone and retail trade zone

Analysis

Suburban newspaper circulation for each year in the pseudo decade was determined by adding data from the suburbs in all of the five metropolitan area in the study. Since there also was an interest in comparing the trends in suburban newspaper circulation to trends in metropolitan daily newspaper and area-wide circulation, the same procedure was followed to determine total newspaper circulation, total circulation of the competing dailies and circulation of the leading (surviving) dailies.

Penetration for each type of newspaper was determined by dividing the combined numbers of households for each year into the appropriate circulation figures.

Finally, to determine the extent of the effects the change from competing to monopoly dailies had on the newspaper markets in the five communities studied, it was necessary to estimate what the circulation and penetration levels would have been if the failing daily had been preserved. This was accomplished by calculating, for each type of newspaper, an ordinary least squares line of estimate from data for the six years before the failure of the dailies, and extending the line of

estimate through Year 10. The estimates were then compared with the actual penetration and circulation figures to determine the magnitude and direction of the effects of the change.

Results

Charts 1, 2 and 3 present the information to answer the research questions.

1) Chart 1 shows that actual penetration in Year 10 of the cycle, three years after the demise of one of the competing metropolitan dailies, was 20.43 percent. Since expected penetration was 24.25 percent, the results indicate that suburban newspapers had lost 3.82 percent of their penetration three years after the change to a monopoly market structure. The loss represents a 15.75 percent shortfall in penetration for the suburban newspapers. The results support the first hypothesis that said suburban newspaper penetration will decline after the change to a monopoly market structure.

2) The second hypothesis is supported by the results presented in Chart 2 that shows suburban circulation also declined following the change to a monopoly market structure. While it was estimated that in Year 10 suburban circulation would be 1.24 million, actual circulation was only 1.04 million, a loss of 200,000 in circulation and a shortfall of 16.1 percent below the estimate.

3) Chart 3 indicates, in response to the third hypothesis, that the monopoly structure did have a negative effect on the numbers of suburban newspapers as expected. There were only 73 suburban newspapers in existence in the five metropolitan areas in Year 10, 14.97 newspapers fewer than the estimate of 87.97, which represents a shortfall of 17.02

percent below the estimate.

4 & 5) The evidence to test hypotheses four and five, whether the metropolitan daily newspaper penetration and circulation declined following the change from competition to monopoly, is somewhat ambiguous. Chart 1 shows that in Year 10 the surviving dailies had an actual penetration of 51.10 percent, compared with an expected penetration of 44.92 percent. The 6.18 percent increase represents a longfall of 13.76 percent above the estimate. However, Chart 1 also shows that penetration of the surviving dailies was 12.12 percent below the level of metropolitan daily newspaper penetration that would have been expected if there had continued to be competing dailies in Year 10. In other words, the surviving dailies acquired 6.18 percent additional penetration at the expense to the metropolitan daily newspaper market of 12.12 percent following the demise of the failing daily.

Similarly, Chart 2 shows that in Year 10 the surviving dailies had combined actual circulation of 2.53 million, compared with expected circulation of 2.26 million. The 270,000 increase represents a longfall of 11.95 percent above the estimate. Again, however, the circulation gains on the part of the surviving dailies were acquired at the expense of the total metropolitan daily newspaper market. It was estimated that if the failing dailies had survived, daily circulation would have been at 3.24 million. Since actual circulation of the surviving dailies was only 2.53 million, the cost to the total daily newspaper market was 710,000 circulation.

In addition, while the results indicate that both penetration and circulation were higher than expected, the charts also indicate that the

trend is downward for both penetration and circulation.

Nonetheless, the results do not support the expectations of hypotheses four and five, that penetration and circulation of the surviving monopoly metropolitan daily newspaper will decrease.

Finally, Charts 1 and 2 illustrate the effects on the total newspaper market when the structure changes from competing dailies to monopoly dailies.

6 & 7) The sixth and seventh hypotheses were based on the expectation that total newspaper penetration and circulation would decline following the change to a monopoly market. Both hypotheses were supported. Chart 1 shows that while actual penetration of all newspapers combined was 71.60 percent, it was estimated that had the metropolitan areas continued to have competing dailies in Year 10, penetration would have been 87.47 percent. The loss of 15.87 percent penetration represents an 18.14 percent shortfall below the expected level of penetration.

Monopoly market structure appeared to have a similar effect on total newspaper circulation. Total market circulation in Year 10 was expected to be 4.46 million but the actual circulation reached only 3.65 million, a loss of 810,000 in total circulation and an 18.16 percent shortfall below the estimate.

Discussion

The issue addressed in this paper is whether the suburban press is better off, from a competitive standpoint, if competing dailies are allowed to combine operations in a joint operating agreement or if the weaker of the two dailies is allowed to die and the suburban newspapers then must compete against a monopoly daily.

The study's findings of the effects on suburban newspaper penetration, circulation and numbers when metropolitan areas change from competing to monopoly dailies, considered along with the results of studies on the effects of joint operating agreements on the suburban press, provide evidence that the suburban press is better off in an area of joined dailies.

While previous research has found no detrimental effects on the suburban press in areas with JOAs, this study shows that when communities change from competing to monopoly dailies, suburban newspaper penetration, circulation and numbers decline. In fact, the entire newspaper industry appears to suffer in an area with a monopoly daily, since the results showed an overall market decline in penetration and circulation. Only the surviving daily benefited from the change, although three years after the demise of its competitor the survivor retained less than one half of the orphaned penetration and circulation with indications of a downward trend in retention as illustrated in Charts 1 and 2.

Although this study was concerned only with macrorends in the newspaper markets, and not with detail on causes and effects, speculating on a possible scenario of the behavior of the surviving monopoly daily illustrates possible directions for further research into the microrends. One possible explanation of the results unfolds as follows: having eliminated its competitor, the surviving daily might initially try to adopt as many of the orphaned subscribers as possible. Some penetration and circulation inevitably will be lost because some of the orphans were already subscribing to both dailies; some orphans didn't really read the failed daily but rather subscribed to it out of habit and will not

transfer that habit to the survivor, and; some orphans will find the surviving daily an unacceptable substitute for the failed daily. Following the initial gains in subscriptions the surviving daily may, as Bagdikian suggests, begin to eliminate those households that it considers geographically or demographically unattractive to its advertisers.¹⁴ The trends in daily newspaper penetration and circulation, as illustrated in Charts 1 and 2 suggest this is a possibility since the peaks occur the year following failure of the competing daily and then trend downward. An alternative interpretation is that the orphans represented by the peaks are initially enticed to subscribe to the surviving daily but subsequently drop it.

Assuming that the surviving daily does skim the more desirable subscribers from the metropolitan area, the suburban newspapers may be left with potential subscribers that are considered inferior by potential advertisers. This results in lower advertising revenues for the suburban papers, a consequent downward spiral in circulation and eventual failure of the weaker papers. The downward trend in suburban newspaper numbers, illustrated in Chart 3, tends to support this speculation.

Another possible reason for the decline in suburban penetration and circulation concerns the reading habits of Americans. It has been demonstrated that people who regularly read a daily newspaper also tend to read other newspapers, magazines and books. Perhaps when they are deprived of the opportunity to regularly read their chosen daily newspaper these people soon lose the reading habit and eventually lose interest in other print media. Again, the result is potentially fatal to the weaker suburban newspapers.

The scenario suggests several possibilities for further research, including:

1) Continued attention to the trends in penetration, circulation and newspaper numbers beyond the third year after the demise of the failing paper. Do the downward trends continue, or are they replaced with new trends that indicate additional changes in the newspaper market?

2) Who controls the downward trend in the monopoly daily newspaper's penetration and circulation, the newspaper or the potential readers?

3) Depending on who controls the decline in daily newspaper penetration and circulation, what becomes of the orphans? Are they lost to the print media forever? Are they adopted by another medium?

4) If the orphans are abandoning newspaper readership, are they also discontinuing other print media readership? Is there a wider ranging whirlpool effect that reaches beyond the newspaper industry?

5) In addition to studies on penetration and circulation, it might be fruitful to conduct research, somewhat parallel to that suggested above, on advertisers orphaned by the death of a daily newspaper, to provide a more complete economic picture of the competitive relationships within the newspaper industry.

Conclusions

Not addressed in this paper is an issue that generally arises in challenges to joint operating agreements -- whether the failing newspaper requesting the agreement is indeed failing financially. Rather, this study looked at the worst possible cases, those where the trailing daily newspapers obviously were failing. As such, the results may not accurately reflect the situations in cities such as Detroit and San

Francisco where a major issue is the definition of a failing newspaper.

In the metropolitan area where a competing daily newspaper is failing, however, the results of this study indicate that perhaps the suburban press should reevaluate its opposition to JOAs. Considering the absence of evidence showing that JOAs damage the suburban press, and the potentially detrimental effects of the monopoly alternative to the JOA, the suburban press would better be served by encouraging the JOA.

Endnotes

¹The Newspaper Preservation Act of June 24, 1970, Pub. Law No. 91-353, 84 Stat. 466, Sec. 2.

²Mark Fitzgerald, "An Active Year of Buying and Selling," Editor & Publisher, Jan. 3, 1987, p. 11.

³Gerald B. Healey, "Group Plans Attack on Hayden Proposal," Editor & Publisher, Oct. 14, 1967, p. 18d.

⁴Richard Caves, American Industry: Structure, Conduct, Performance, 5th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1982), pp. 52-53.

⁵Ben Bagdikian, The Media Monopoly, (Boston: Beacon Press, 1983), chapt. 7.

⁶Bonnie Lynn Henderson, "Impact of the Seattle Joint Operating Arrangement on the Local Suburban Press," master's thesis, University of Oregon, 1983.

⁷Walter E. Niebauer Jr., "Effects of the Newspaper Preservation Act on the Suburban Press," Newspaper Research Journal, 5:41-49 (1984).

⁸Stephen Lacy, Walter E. Niebauer Jr., James M. Bernstein and Tuen-yu Lau, "The Impact of Central City Newspaper Market Structure on Suburban Newspaper Existence and Circulation," unpublished paper, Michigan State University, 1987.

⁹Bagdikian, p. 118.

¹⁰William B. Blankenburg, "Newspaper Ownership and Control of Circulation to Increase Profits," Journalism Quarterly, 59:390-398 (1982).

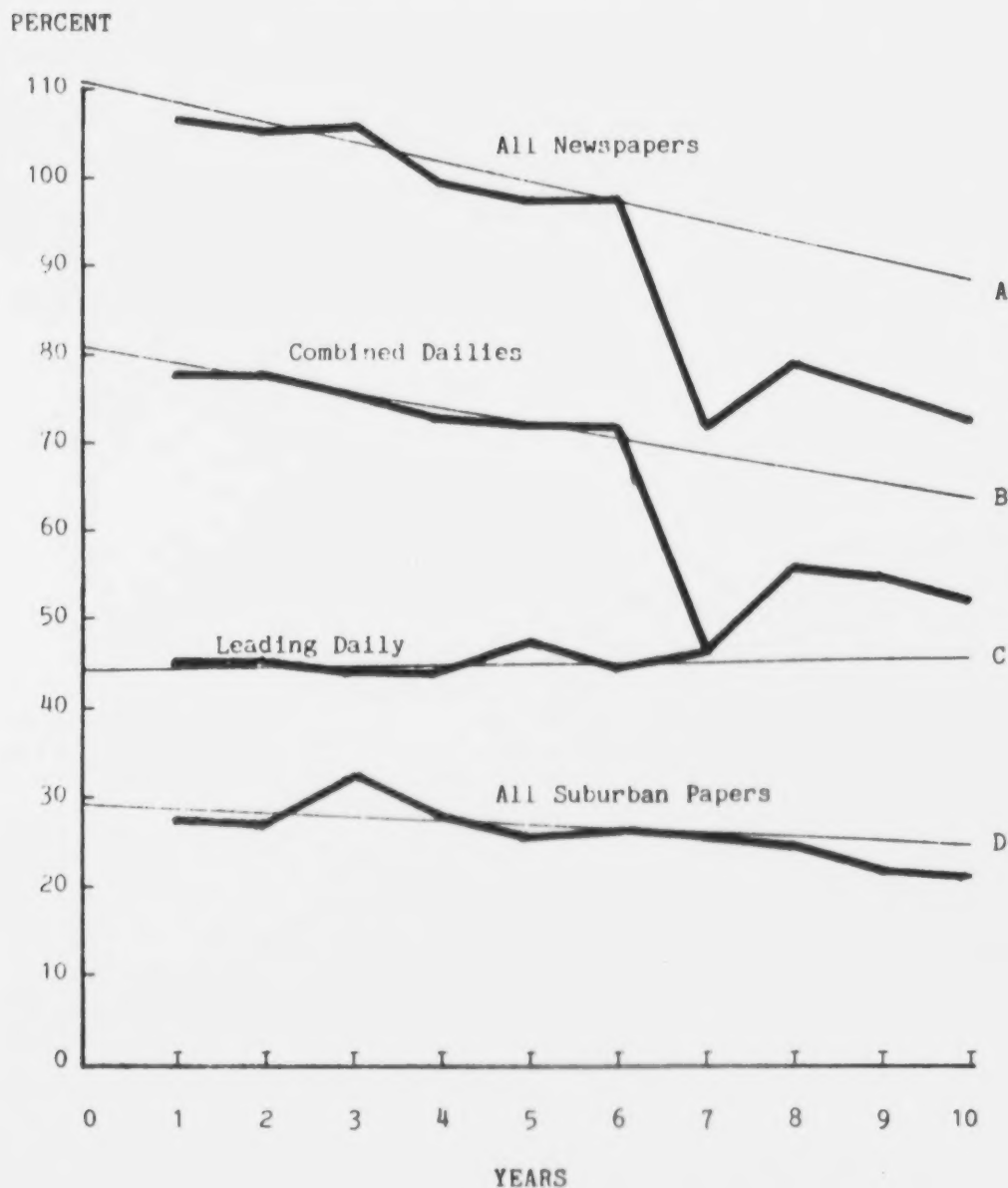
¹¹Lacy, et al.

¹²The five metropolitan daily failures were the Hartford (Conn.) Times, that failed in 1976; the Philadelphia Bulletin and Washington, D.C. Star (1981); and the Cleveland Press and Buffalo Courier Express (1982).

¹³Niebauer, p. 43.

¹⁴Bagdikian, p. 118.

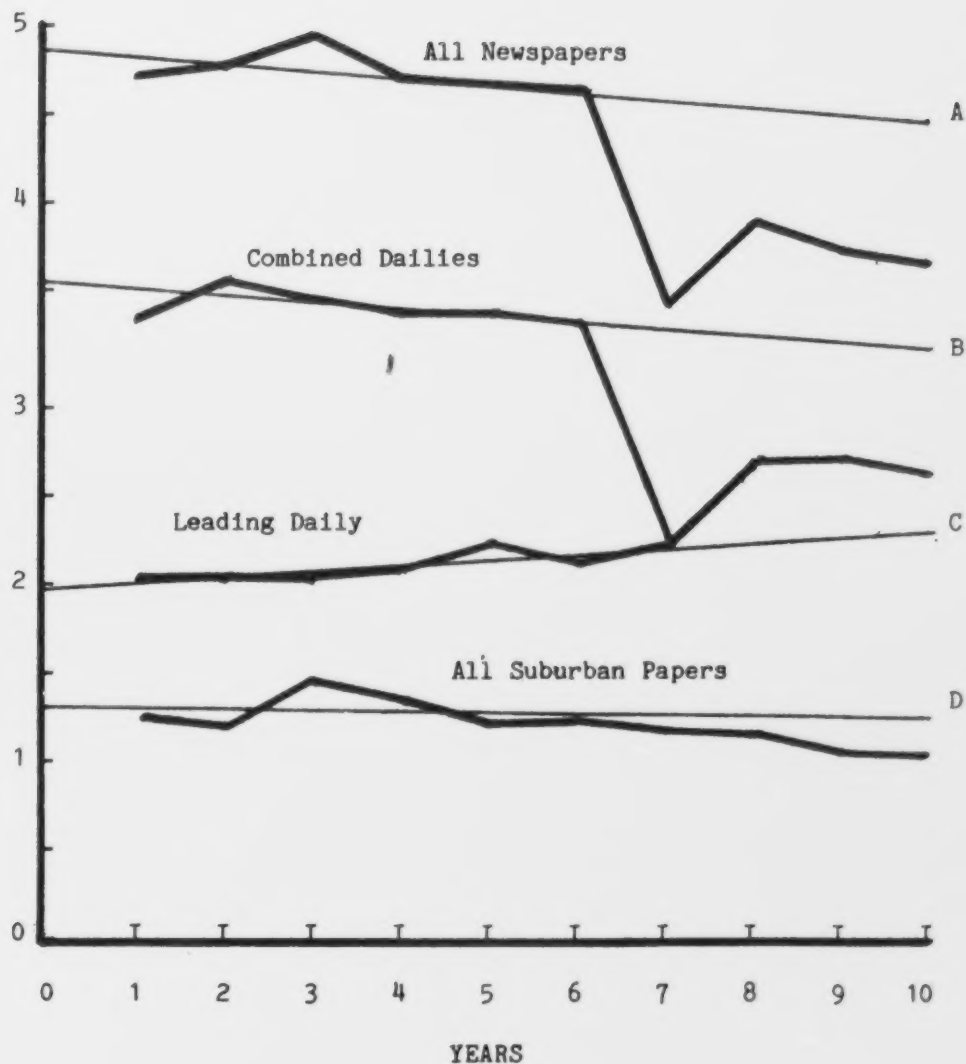
CHART 1:
PENETRATION BY NEWSPAPER TYPE^a



^aLettered lines are expected penetrations estimated from penetration data for the six years before the demise of the daily newspapers:
 A = expected penetration for all newspapers, $Y=110.27+(-2.28)X$
 B = expected penetration for the combined dailies, $Y=80.52+(-1.73)X$
 C = expected penetration for the leading (surviving) daily, $Y=44.51+.04X$
 D = expected penetration for all suburban newspapers, $Y=29.75+(-.55)X$

CHART 2:
CIRCULATION BY NEWSPAPER TYPE^a

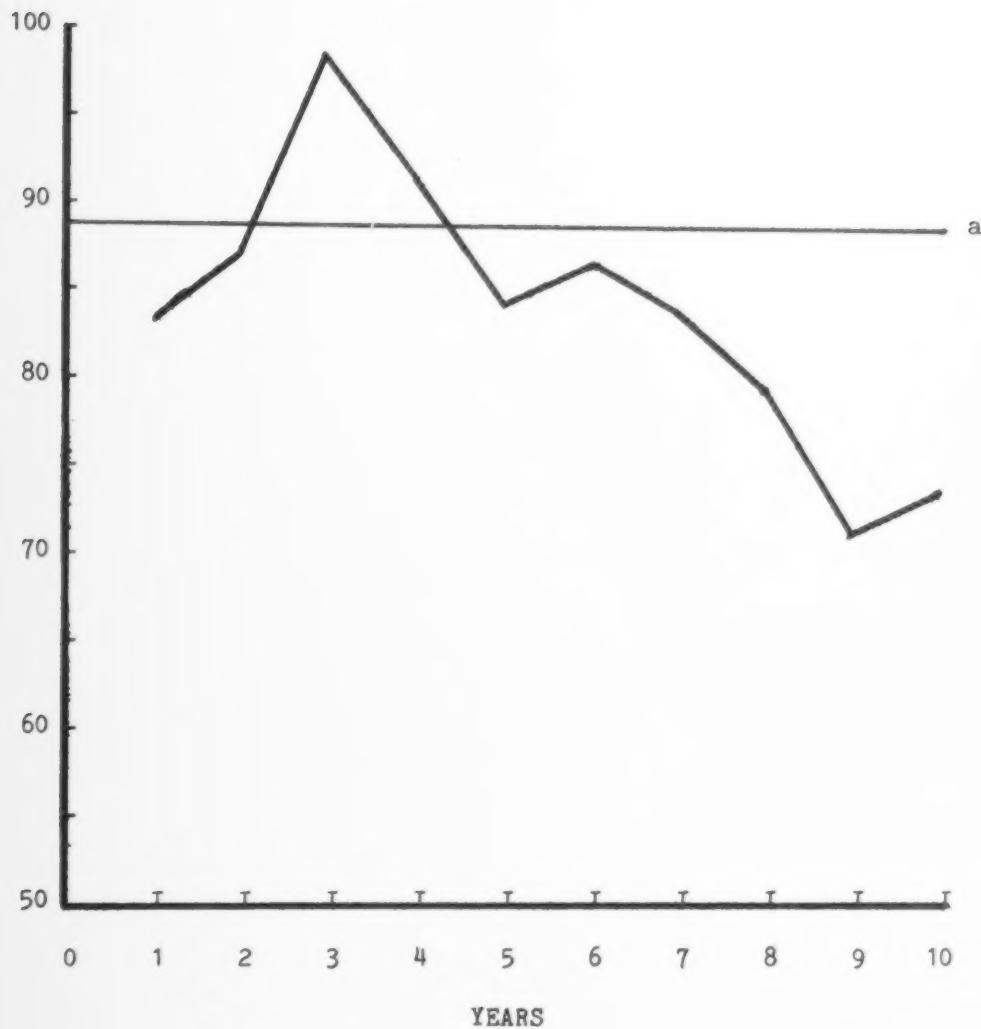
CIRCULATION
(millions)



^aLettered lines are expected circulations estimated from circulation data for the six years before the demise of the daily newspapers:
 A = expected circulation for all newspapers, $Y = 4.86 + (-.04)X$
 B = expected circulation for the combined dailies, $Y = 3.54 + (-.03)X$
 C = expected circulation for the leading (surviving) daily, $Y = 1.96 + .03X$
 D = expected circulation for all suburban newspapers, $Y = 1.31 + (-.007)X$

CHART 3:
NUMBERS OF SUBURBAN NEWSPAPERS

NUMBERS
OF PAPERS



^aThe line represents expected number of suburban newspapers estimated from data for the six years before the demise of the daily newspapers,
 $Y=88.27+(-.03)X$.